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VIA OVERNIGHT MAIL

July 6, 2004

CINERGY®

Ms. Elizabeth O'Donnell
Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

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JUL 07 2004

PUBLIC SERVICE
COMMISSION

Re: Case No. 2004-00014

Dear Ms. O'Donnell:

Enclosed please find an original and seven (7) copies of The Union Light, Heat and Power Company's Responses to Commission Staff's First Data Request for filing with the Commission.

Should you have any questions, please do not hesitate to contact me at (513) 287-3075.

Sincerely,



Michael J. Pahtuski

MJP/mak

Enclosures

cc: Elizabeth Blackford
Assistant Attorney General
Kentucky Attorney General's Office

Iris Skidmore, Counsel
Environmental and Public Protection Cabinet
Kentucky Division of Energy

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PUBLIC SERVICE
COMMISSION

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-001(a)

REQUEST:

1. Refer to Volume 1 of ULH&P's 2003 Integrated Resource Plan ("IRP"), pages 1-17 and 1-18, which refer to the Commission's approval of ULH&P's request to acquire the East Bend, Miami Fort 6, and Woodsdale generating units.
 - a. ULH&P indicated that it expected to file a transfer application with the Federal Energy Regulatory Commission ("FERC") in February of 2004 and a related application with the Securities and Exchange Commission ("SEC") shortly thereafter, in its response to Commission Staff's January 9, 2004 data request in Case No. 2003-00252. Have those applications been filed? If yes, provide the dates when they were filed with the FERC and the SEC, respectively.

RESPONSE:

ULH&P has not yet filed applications with the FERC or SEC. See also response to KyPSC-DR-01-001(b).

WITNESS RESPONSIBLE: N/A

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-001(b)

REQUEST:

1. Refer to Volume 1 of ULH&P's 2003 Integrated Resource Plan ("IRP"), pages 1-17 and 1-18, which refer to the Commission's approval of ULH&P's request to acquire the East Bend, Miami Fort 6, and Woodsdale generating units.
 - b. Provide the status of the FERC's and the SEC's reviews of ULH&P's applications. If the applications have not been filed, explain in detail why they have not been filed and indicate when they will be filed.

RESPONSE:

ULH&P has not yet filed the requisite applications with the FERC or the SEC. ULH&P believes that the most prudent course of action with regard to these filings is to await the outcome of FERC's decisions in similar cases currently before them, including the Ameren case, and Cinergy's case involving the transfer of two generating facilities to PSI Energy, Inc. (which is pending rehearing). FERC also has recently initiated two technical conferences examining the issues pertinent to affiliate purchase power transactions and utility purchase of affiliate generating facilities. ULH&P believes that by waiting for these cases to be resolved, it will be better able to shape its filing to any specific requirements arising out of these proceedings. ULH&P believes that if it makes its filing before these proceedings are concluded, the matter may very well be set for hearing, delaying the ultimate closing date by 14 – 16 months.

WITNESS RESPONSIBLE: N/A

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-001(c)

REQUEST:

1. Refer to Volume 1 of ULH&P's 2003 Integrated Resource Plan ("IRP"), pages 1-17 and 1-18, which refer to the Commission's approval of ULH&P's request to acquire the East Bend, Miami Fort 6, and Woodsdale generating units.
 - c. Refer to the sentence spanning pages 1-14 to 1-15, which states that the 2003 IRP is shown in Figure 1-3, "assuming the transfer of the plans to ULH&P occurs on 7/1/04." If the transfer does not occur by that date, what plan should be selected? Provide a complete explanation and analysis.

RESPONSE:

The sentence referenced was merely stating that the transfer of the plants on 7/1/04 was an assumption in the modeling. Since the rates of ULH&P's customers would not change until 2007, this plan would remain least cost as long as the plants are transferred prior to the end of the current supply contract from CG&E.

WITNESS RESPONSIBLE:

Diane Jenner

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-002(a)

REQUEST:

2. Refer to page 2-4 of the IRP.
 - a. The after-tax effective discount rate used in the IRP is 8.73 percent. Provide the analysis used to derive this rate.

RESPONSE:

Please see the attached.

WITNESS RESPONSIBLE: Diane Jenner

THE UNION LIGHT, HEAT AND POWER COMPANY
 COST OF CAPITAL SUMMARY
 AS OF DECEMBER 31, 2006
 (CORPORATE)

April 16, 2003
 Schedule 4

Woodsdale and East Bend

LINE NO.	CLASS OF CAPITAL	REFERENCE	AMOUNT (\$)	% OF TOTAL	% COST	WEIGHTED COST %
1	Common Equity		368,932,025	56.476%	11.000%	6.212%
2	Long-Term Debt	Sch 5	230,046,389	35.215%	6.333%	2.230%
3	Short-Term Debt	Sch 6	<u>54,276,650</u>	<u>8.309%</u>	3.545%	<u>0.295%</u>
4						
5	Total Capital		<u>653,255,064</u>	<u>100.000%</u>		<u>8.737%</u>
6						
7						
8	Accumulated Deferred Investment Tax Credit		<u>1,762,688</u>			
9	Account 255					
10						
11						
12	<u>Investment Tax Credit Included in Total Capital</u>					
13						
14	Common Equity		369,927,521	56.476%	11.000%	6.212%
15	Long-Term Debt		230,667,120	35.215%	6.333%	2.230%
16	Short-Term Debt		<u>54,423,112</u>	<u>8.309%</u>	3.545%	<u>0.295%</u>
17						
18	Total Capital Including Investment Tax Credit		<u>655,017,753</u>	<u>100.000%</u>		<u>8.737%</u>

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-002(b)

REQUEST:

2. Refer to page 2-4 of the IRP.
 - b. The allowance for Funds Used During Construction (“AFUDC”) rate used in the IRP is 7.00 percent. Provide the analysis used to derive this rate.

RESPONSE:

Please see the attached.

WITNESS RESPONSIBLE: Diane Jenner

ULH&P-Gas & Common
 Computation of AFUDC Rate
 By Order No. 561 Method
 For the Month of February, 2003

	AMOUNT (1)	CAPITALIZATION RATIO (2)	COST RATES (3)	SW (4)	WEIGHTED COST RATES FOR GROSS AFUDC RATE (5)	RATE TO BE USED GROSS % RATIO
Short-Term Debt(S) Sch. A	4,473,000		1.26 x	31.32% =	0.00396	
Long-Term Debt Sch. B	71,269,396	28.22% x	6.993 x	68.68% =	0.01355	1.75 25.00
Preferred Stock Sch. C	0	0.00% x	0.00 x	68.68% =	0.00000	
Common Equity Sch. D	181,274,000	71.78% x	11.00 x	68.68% =	0.05423	5.25 75.00
Total Capitalization	252,543,396	100.00%				
AFUDC Rates					0.07174	7.00 100.00
CWIP (W) Sch. E	14,280,812				28.696 -0.304	

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

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KyPSC-DR-01-003(a)

REQUEST:

3. Refer to page 2-8 of the IRP, which lists reliability constraints used therein.
 - a. Provide definitions of "Loss of Load Hours" and "Expected Unserved Energy."

RESPONSE:

Expected Unserved Energy (EUE) - The expected amount of energy curtailment per year due to demand exceeding available capacity.

Loss of Load Hours (LOLH) - The number of hours per year that demand exceeds available capacity.

WITNESS RESPONSIBLE: Diane Jenner

KyPSC Staff First Set Data Requests
Case No. 2004-00014
Date Received: June 16, 2004
Response Due Date: July 7, 2004

KyPSC-DR-01-003(b)

REQUEST:

3. Refer to page 2-8 of the IRP, which lists reliability constraints used therein.
 - b. Provide an analysis showing why each of the target numbers for reserve margin, loss of load hours, and expected unserved energy is a reasonable target.

RESPONSE:

Pages 2-5 through 2-8 of the IRP explain the reasoning behind the reserve margin criteria used. Furthermore, page 8-11 explains the specific minimum reserve margin used in the East Bend/Miami Fort 6 /Woodsdale Plan, and Figure 8-3 shows the calculation of this minimum reserve margin.

As stated on page 2-5, the LOLH and EUE criteria are those used by Cinergy and ULH&P since 1995. The 1999 IRP explains on page 2-8:

“As stated in previous filings since the merger was announced in December 1992, these criteria were based on a combination of the criteria used by CG&E and PSI on a stand-alone basis. CG&E had used a minimum reserve margin of 17%, an annual LOLH less than 175, and a seasonal EUE less than 0.25%. These criteria had been used in IRP filings with the PUCO and KyPSC. PSI had used a minimum reserve margin of 20% and an annual maximum EUE of 0.17-0.18%, which was based on a system reserve margin of 25%. The use of these criteria was approved by the IURC in PSI’s last two Certificate of Public Convenience and Necessity (CPCN) proceedings prior to the merger.”

No formal analysis has been done recently regarding the LOLH and EUE criteria. In the IRP modeling, the reserve margin criterion was dominant, in that it was violated before the other 2 criteria.

WITNESS RESPONSIBLE: Diane Jenner

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-004

REQUEST:

4. Refer to pages 1-9 and 4-14 of the IRP, which indicate that a reduction in load of 3 MW is available under a contract with an industrial customer. Describe the efforts made that ensure that this 3 MW reduction will be available when called upon.

RESPONSE:

The interruption process has always been that whenever Cinergy/ULH&P calls to interrupt, they verbally comply. There is no process in place to confirm their curtailment of 3 MW except after the fact from a review of their hourly load data. The customer's operation is flexible and they can stop their processes when called, which fits well with the interruptible tariff. Operationally, this interruptible contract is managed by the same group that manages the generation.

WITNESS RESPONSIBLE: Richard Stevie

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-005

REQUEST:

5. Refer to pages 1-15 of the IRP, which indicates that the plan may be adjusted to levelize reserve margins. Explain what is meant by "levelize reserve margins."

RESPONSE:

Levelizing was referring to the possibility that the timing of a supply-side addition might be delayed by a year or so in order to avoid greatly exceeding the target reserve margin in the year of installation. This is because the size of many supply-side additions is such that the most economic addition may be larger than what is required to just meet the reserve margin criteria. While the last 10 years of the plan chosen in the IRP do not show such large changes in reserve margins, the sizes of the units used in the modeling were constrained to prevent just such an occurrence. In reality, the least cost alternative for ULH&P at the time of ULH&P's next supply-side addition may be a larger unit than what was used in the model, thus potentially necessitating levelizing the reserve margin.

WITNESS RESPONSIBLE: Diane Jenner

KyPSC Staff First Set Data Requests
Case No. 2004-00014
Date Received: June 16, 2004
Response Due Date: July 7, 2004

KyPSC-DR-01-006

REQUEST:

6. Refer to page 6-11 of the IRP, specifically Figure 6-1. Provide the current timeframe for the installation of the Low NOx Burner at the Miami Fort 6 generating unit.

RESPONSE:

The date has not been finalized, however a tentative date of 12/2006 has been used as a placeholder.

WITNESS RESPONSIBLE: John Roebel

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-007(a)

REQUEST:

7. Refer to pages 8-43 through 8-47 of the IRP concerning New Source Review issues. On June 28, 2000, the United States Environmental Protection Agency (“EPA”) issued a notice of violation, which among other things, alleged violations at the Miami Fort generating station.
 - a. Explain whether any of the violations alleged by EPA were related to the operation of Miami Fort 6. If yes, describe the specific violation(s).

RESPONSE:

There have not been any NOV(s) issued or filed against Miami Fort Unit 6.

WITNESS RESPONSIBLE: N/A

KyPSC Staff First Set Data Requests

Case No. 2004-00014

Date Received: June 16, 2004

Response Due Date: July 7, 2004

KyPSC-DR-01-007(b)

REQUEST:

7. Refer to pages 8-43 through 8-47 of the IRP concerning New Source Review issues. On June 28, 2000, the United States Environmental Protection Agency ("EPA") issued a notice of violation, which among other things, alleged violations at the Miami Fort generating station.
 - b. Explain whether the Agreement in Principle of December 21, 2000, will resolve any issues related to violation at Miami Fort 6.

RESPONSE:

There have not been any NOV(s) issued or filed against Miami Fort Unit 6.

WITNESS RESPONSIBLE: N/A